Twitter Thread by SandeepParekh



SandeepParekh
@SandeepParekh

Letter from the stock markets to the sceptics: "I may be high, but I'm not crazy." Caution, this thread may not age well, but I didn't really write it :).

~Thread from a twitter economist.

They world is in one of the biggest crisis since the 2nd world war, but the stock markets seem to be on a relentless upward move. They appear completely divorced from reality. Really? Probably not. Here are reasons why the markets may be euphoric, but aren't crazy or stupid.

a) Lot of liquidity provided by central banks to rescue failing businesses - globally. Central banks and governments buying all kinds of securities including junk bonds directly!

b) Much of the western world is in the arena of 0 or negative interest rates, and anything which moves (above 0 returns) looks tasty enough to be eaten (bought)

c) The Sensex is just around 10% up from its January levels - so not really frothy territory (if you were to ignore the epidemic)

d) The usual metrics don't really make too much sense - so simply ignore Price-Earnings or Price-to-book value numbers (which show grave levels of over-valuation).

Similarly, you will need to ignore them next year too - when growth (on base effect) of turnover and profits may appear as high as 30 or 50% for many. And incredible earning are a result of pent up demand. Both years are aberrations. Ignore.

e) the only indication of what will happen post the passing of the epidemic - is from 1916, Spanish flu - that it's not so bad from an economic perspective. So in another year or two, things will be back to normal unless we have another major crisis (hey asteroid, it's 2020)

f) economies will become more productive and people and companies will find more efficient ways of doing work. It's like the London subway strike which closed some lines in 2014.

3% people stuck to the new routes, once closed routes were re-opened, because they figured that they had been taking the less efficient route all these years. We are looking at large productivity gains over the next decade.

Productivity gains will have serious and adverse consequences on wages for a lot of people - so things won't look too good for a lot of people. Reskilling will be v. critical.

g) The Indian government seems to be on a major reform drive - yes, not always popular: GST, insolvency, farm reforms, disinvestment, massive infra push etc.

h) if we are indeed at the beginning of serious reforms, we could be looking at very significant increase in GDP growth. It is premature to predict that, but the markets seem to be factoring that into the current price.

The markets are simply the collective expectation of the people of discounted cash flows from the future. So between higher expectations and more money chasing fewer attractive asset classes, pick your poison. But things are not as bad as they look.